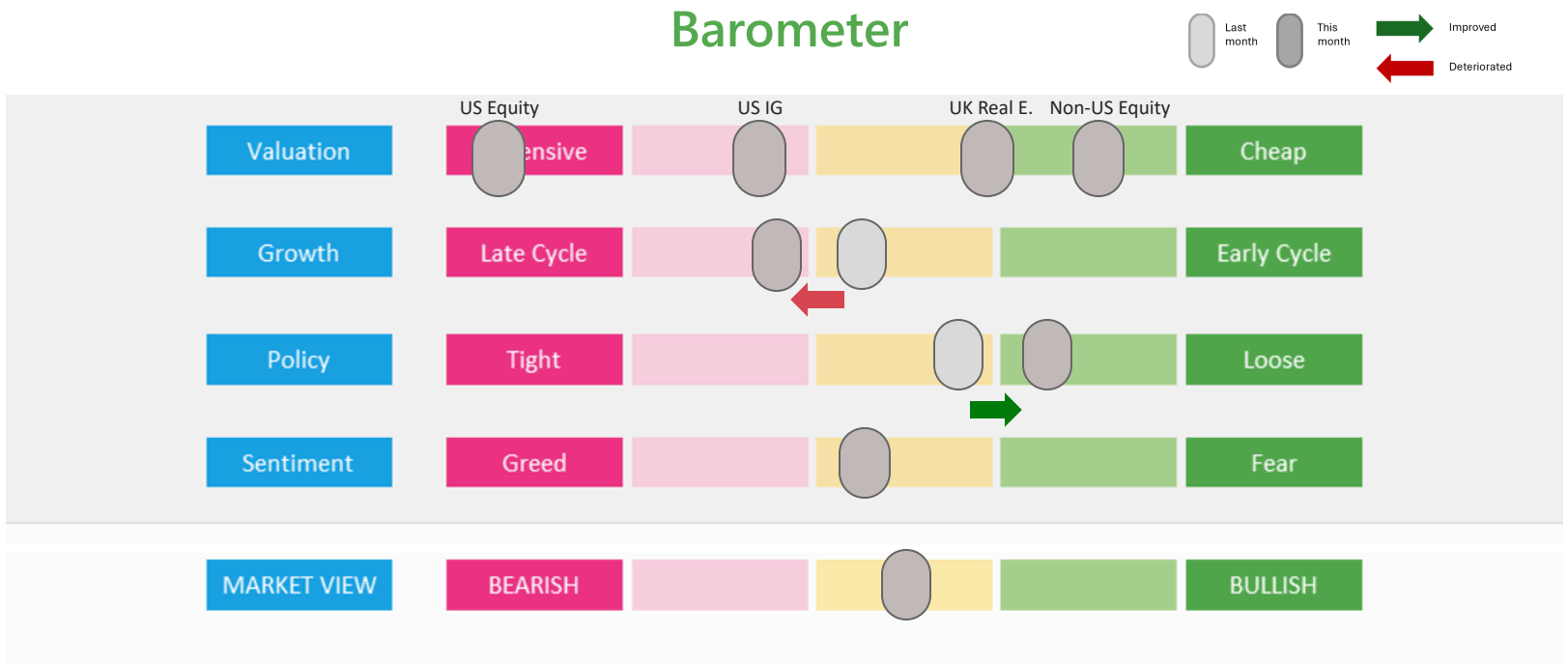


Market Barometer



The \$2,000,000,000,000 Question

Keeping it simple, **earnings are robust while the cost of capital is well contained** despite rumblings around the periphery of the private credit market.

Central banks are playing ball, cutting rates at close to a record rate, led by the Federal Reserve which is expected to cut rates three more times in the first half of next year while ending Quantitative Tightening. And it could go a lot further depending on the proclivity of the incoming Fed Chair when Powell's term ends in May.

Private credit rumblings (Tricolor, First Brands) - what Jamie Dimon of JPM refers to as "cockroaches" - are not showing up in broader credit aggregates, with **both IG and HY close to all time tight spreads**. Repo balances at the Fed are also still close to zero. Nothing to see here, for now.

On top of this, **M&A volume of \$1.6trn in Q3 is the seventh best quarter in 25 years** per Bloomberg data.

In our **Charts of the Month** we look at:

- **Monetary policy risks tightening** if the Fed doesn't ease more now, in as much as decelerating nominal GDP growth is converging on nominal interest rates. **But we expect the Fed to cut aggressively further**, especially post the May advent of a Trump-appointed Fed Chair.
- The **Fed's balance sheet will stop shrinking** post 1st December too, which will help
- **Repo usage at the Fed has not picked up** which is encouraging despite credit rumblings
- **The retail investor frenzy is gathering intensity** - it all feels increasingly speculative

And **we ask the \$2trillion dollar question** - will hyperscaler capex generate sufficient revenue and profit to maintain ROIC? It will be a stretch, in aggregate.

With respect to equities (including PE) we remain invested in line with our strategic asset allocation.

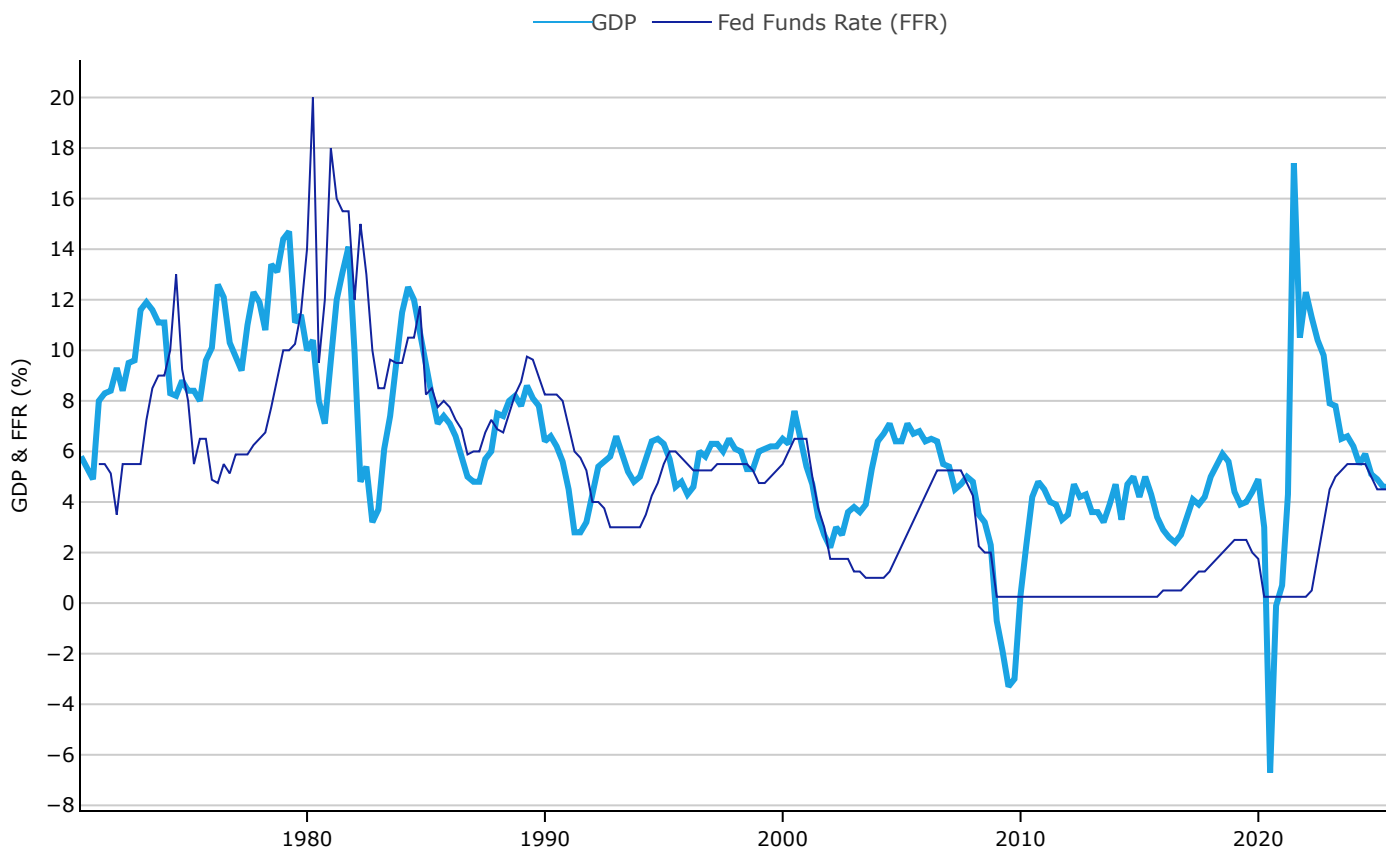
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Charts of the Month (1 of 4)

US monetary policy is becoming quite tight when viewed through the lens of the "Wicksell spread". Sidebar - Danish economist Knut Wicksell developed the idea of the gap between the market interest rate and the natural interest rate (now known as the r^*) in his 1898 book "Interest and Prices". This chart crudely approximates the spread by substituting nominal GDP growth for the natural rate. Policy is loose if the Fed funds rate (thin dark line below) is lower than nominal GDP growth (thick line) - as we saw with the Arthur Burns Fed in the 1970s. Policy is tight if the interest rate is higher than nominal GDP growth - as we saw in Paul Volcker's assault on inflation between 1978-1982. Two things stand out now. First, policy has been very loose throughout most of the last two decades. Second, with nominal GDP growth decelerating fast now, rates need to fall quickly to maintain policy accommodation. We think that is very likely to happen - especially with the forthcoming change in Fed Chair in April. **We are entering a period of rapid monetary loosening. That's usually good for risk assets.**

US Nominal GDP Growth vs Federal Funds Rate

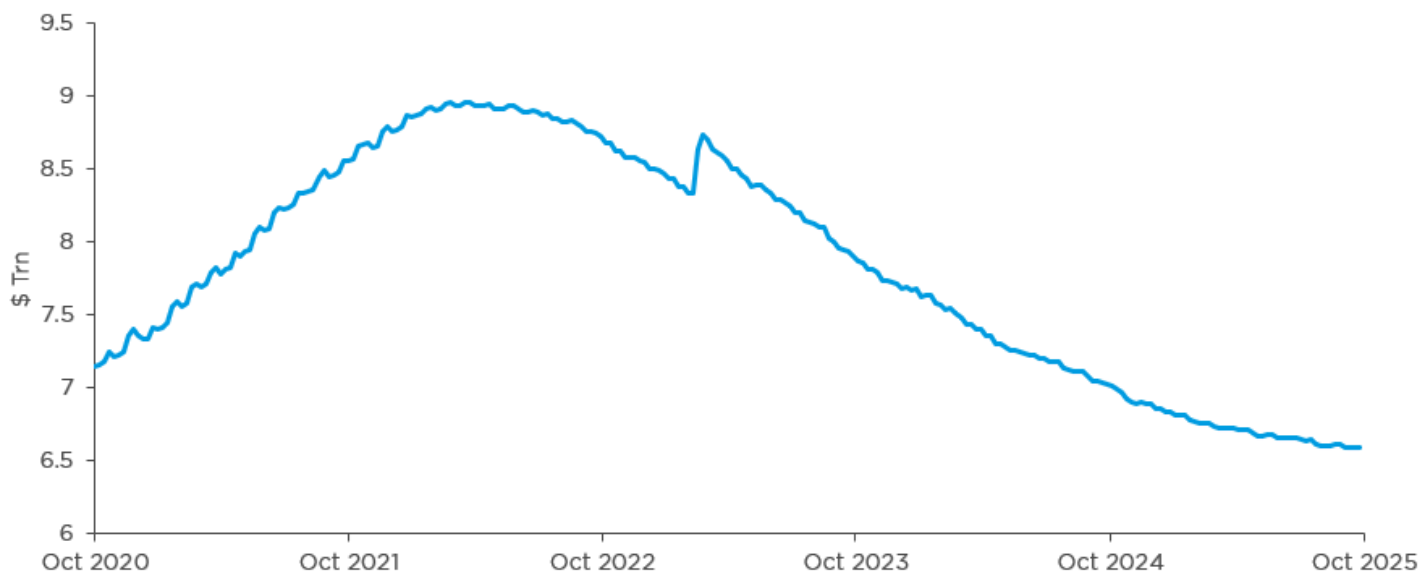


Charts of the Month (2 of 4)

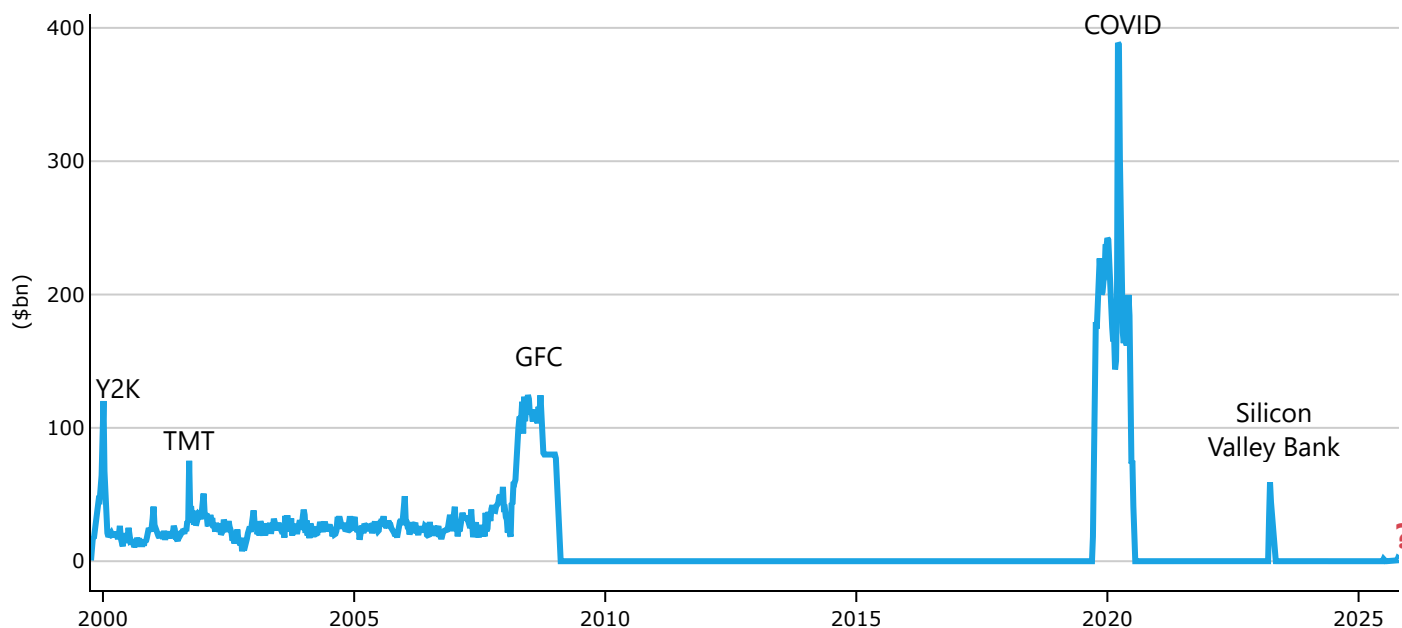
The end of Quantitative Tightening in the US will provide further support to global liquidity. The Fed has just announced it will stop the reduction of its balance sheet from 1st December by starting to reinvest proceeds from expiring bonds on its balance sheet. It is debatable how important this will prove to be, but it is obvious that the lower the Fed allowed bank reserves to fall, the tighter bank liquidity would become.

Encouragingly, despite rumblings in the credit markets with the First Brands and Tricolor bankruptcies and allegations of fraud, **repo balances at the Fed have hardly budged** (lower chart). Repo goes up when banks tender collateral to the central bank in exchange for liquidity so they are a sign of stress. **So far, so good.**

Federal Reserve Balance Sheet



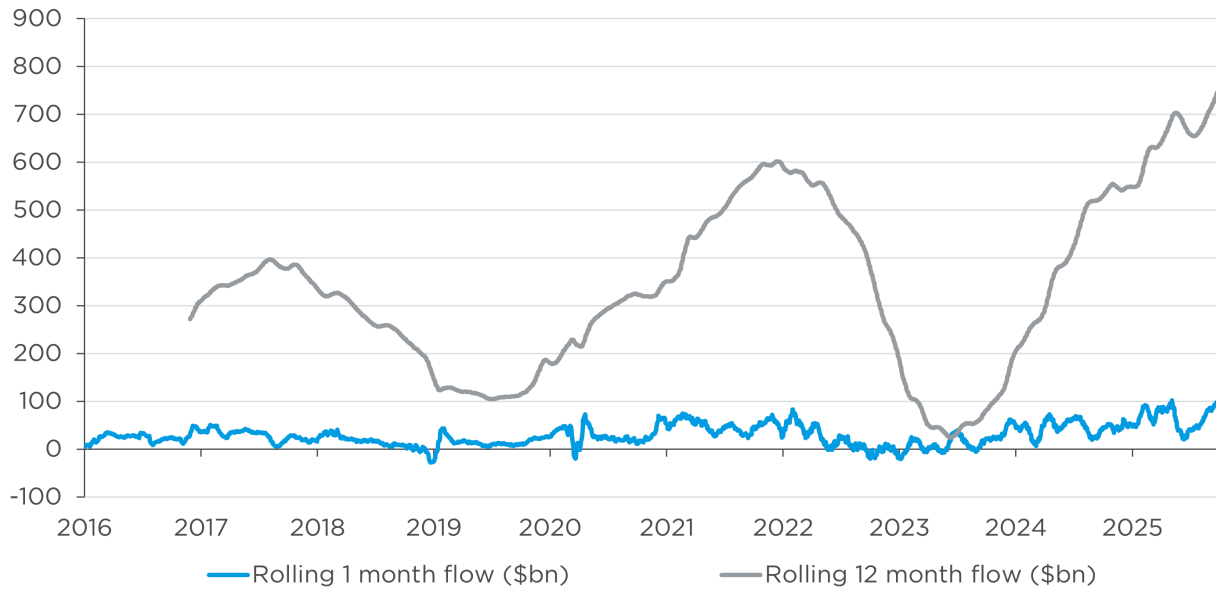
Repurchase (Repo) Balances at the Federal Reserve



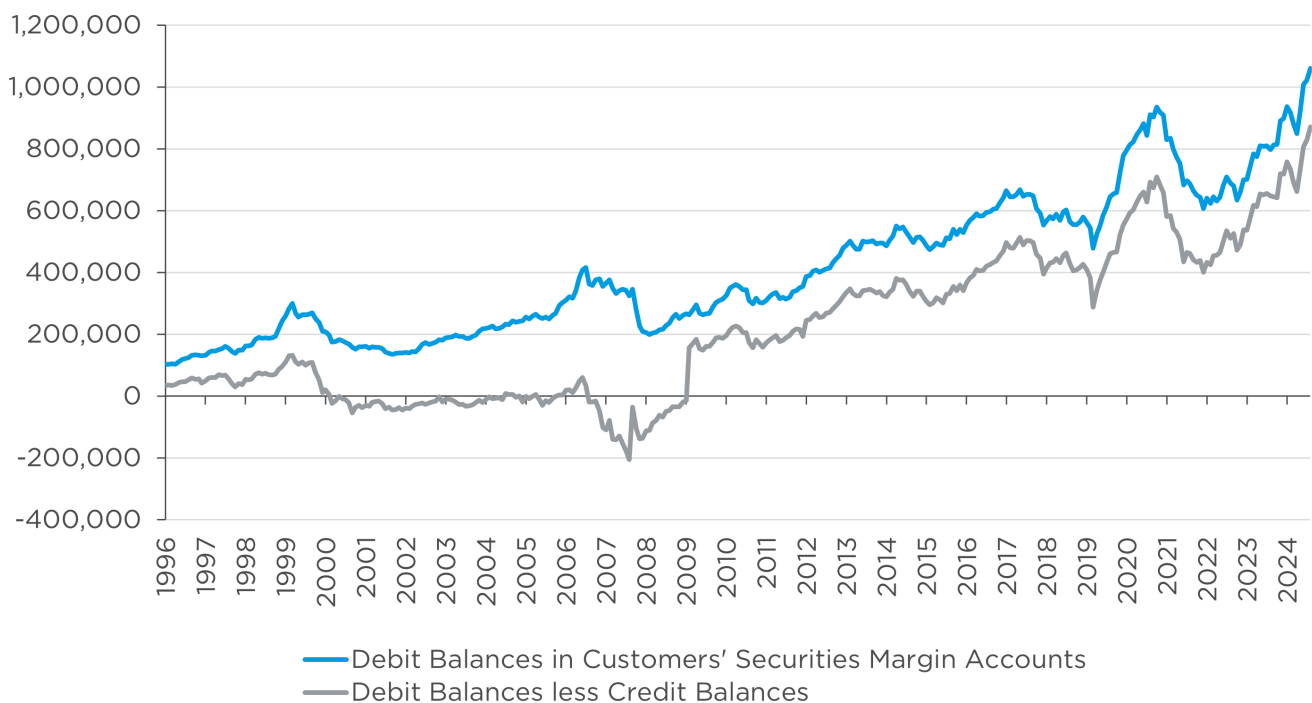
Charts of the Month (3 of 4)

There is a building retail investor frenzy. One area where liquidity is super-abundant is in the private wealth channel. These charts illustrate. Retail investor flows into US equity (top chart) are running at all time record levels - \$100bn last month (all time high) and \$780bn cumulatively over the last 12 months (also all time high). Much of this being financed by debt. Margin balances in retail investor accounts now total \$1 trillion (gross), or \$800bn (net of cash balances in those accounts, bottom chart). Other **datapoints of note:** 1) Zero days to expiry options (0DTE) are two thirds of all US equity options volume. 2) Morgan Stanley's best performing long short equity factor baskets YTD are, in order: realized volatility (+65%); beta (+39%); momentum (+21%). Worst performing, in order: Value (-24%); Quality (-21%). 3) Best performing stock in the S&P500 YTD? Robinhood Markets (+270%). 4) Loss-making companies outperforming profitable companies. **This market feels increasingly speculative.**

Retail Participation in US Equity (\$bn)



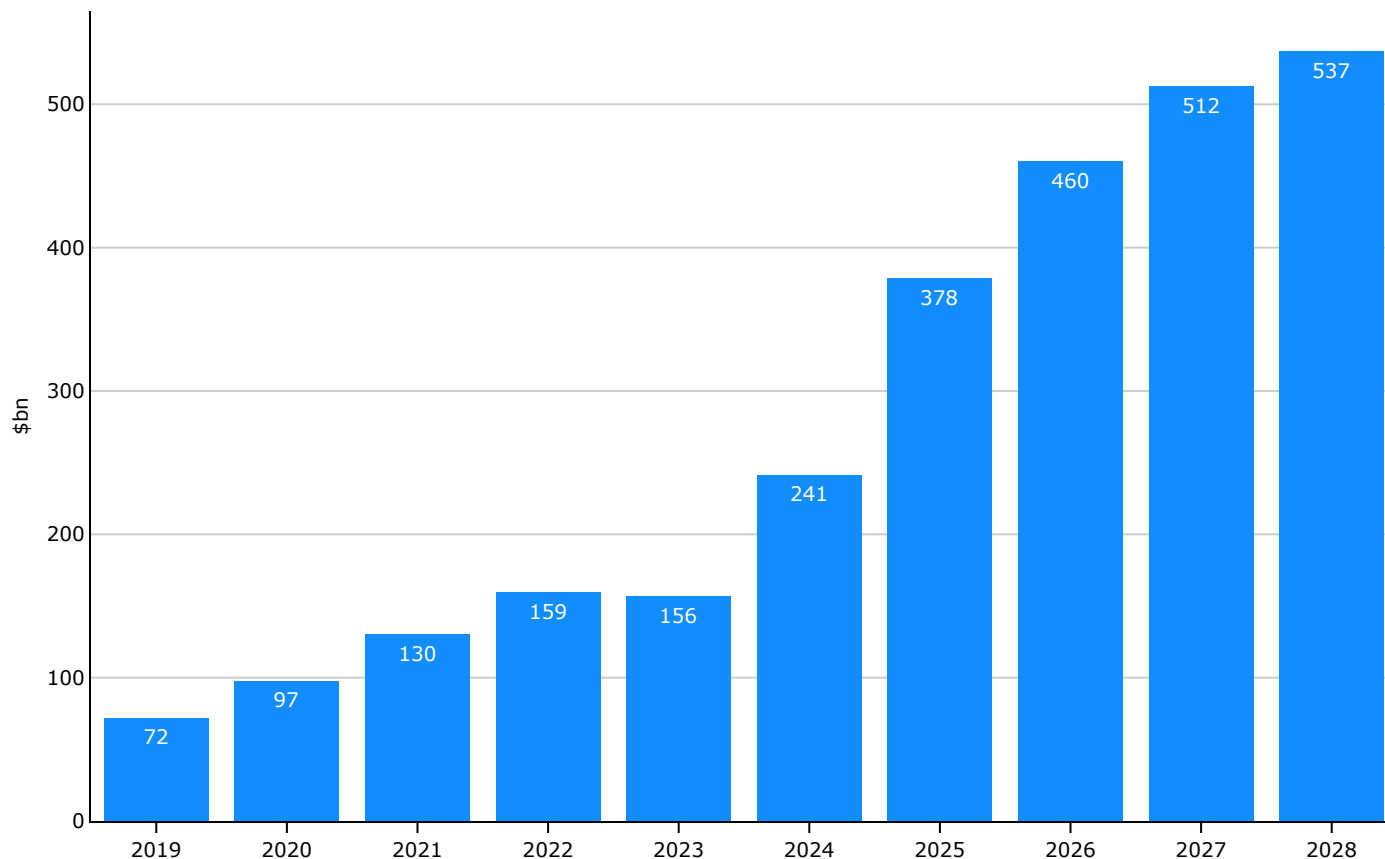
US Investor Margin Balances (\$m)



Charts of the Month (4 of 4)

The two trillion dollar question - will AI investment generate sufficient ROIC to justify itself? The five main hyperscalers (AMZN, MSFT, GOOG, META, ORCL) will spend \$2.1 trillion on capex in the five years (2024-2028) after ChatGPT's launch, compared to \$614bn in the prior five years (see chart), on Bloomberg consensus estimates. So **they will more than treble their annual rate of capex**. Here are some back of envelope numbers, as a sense check. These five companies are expected in 2025 to have average sales/invested capital (asset turn) of 96%; EBIT margin 28%; ROIC 27%. So multiply all this by \$2trn, and **to maintain ROIC at current levels they will need to generate an incremental \$2trn of revenue from their incremental capex**. To put this in perspective total corporate IT spending in 2024 was \$3.8trn. These businesses are becoming more capital intensive, but are still likely to remain highly cash generative businesses with above market average ROIC. **But the current forecasts for capex may well, in our view, prove optimistic.**

Hyperscaler* Capex Estimates by Year



Equity | USA

S&P 500 forward earnings are set to grow ~11% this year, with eight of 11 sectors showing gains.

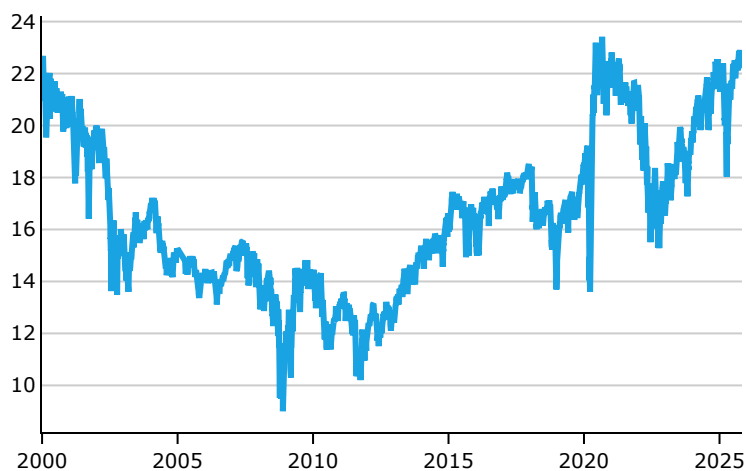
However, the majority of growth is driven by the “Mag-7” (16%), while the other 493 stocks lag at 5.5%.

Valuations remain stretched, but fiscal stimulus, monetary loosening and robust private investment create a more supportive backdrop. Notably, 2026 forecasts point to a broadening recovery, with both the Mag-7 and remaining stocks expected to deliver ~13% EPS growth¹.

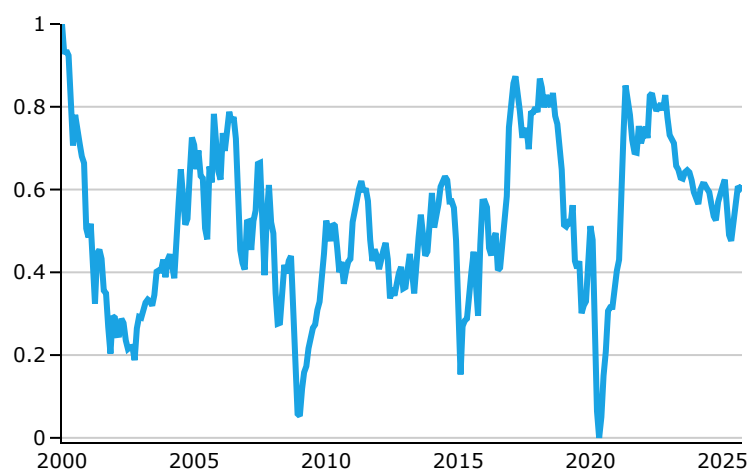
Risks ahead include an inflation spike/strengthening labour market (could stall further rate cuts), **a reduction in tech-driven capex** (impacting GDP, non-tech driven capex is broadly flat), and **US asset managers maintaining positions** more than 2σ above historical norms² (limiting pace of further growth).

S&P 500 Valuations

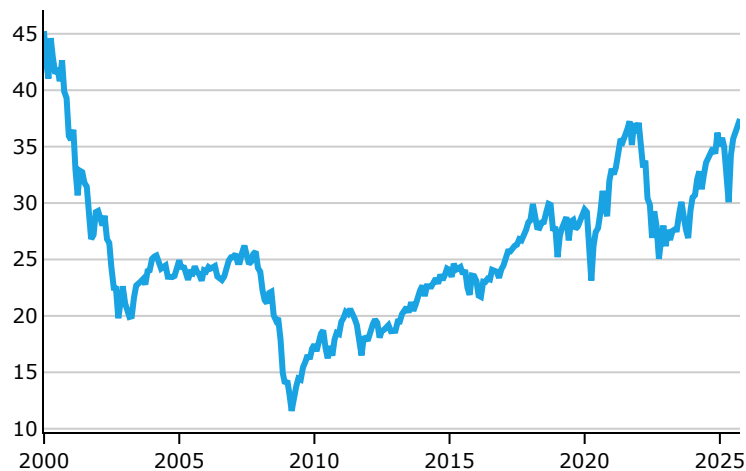
S&P 500 Forward PE



Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at Oct 2025. Shiller PE/CAPE: Morgan Stanley, CVI Model: CCLA as of Sep 2025, Equity Risk Premium: CCLA as of Sep 2025. 1: Bloomberg as at 17 Oct 2025, 2: JP Morgan 'Equity Strategy' 14 Oct 2025.

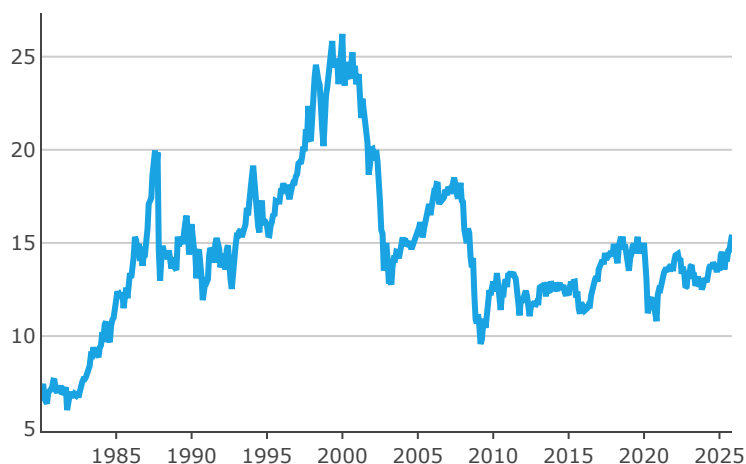
Equity | Regional

Europe's EPS¹ growth remains subdued, with 2025 forecasts showing a 2.4% contraction YoY. Hopes for a German-led recovery have yet to materialise, while weak Chinese demand continues to weigh on corporates - about a 1/3 of revenues originate from EMs, chiefly China². Perhaps this is why its CAPE hasn't re-rated.

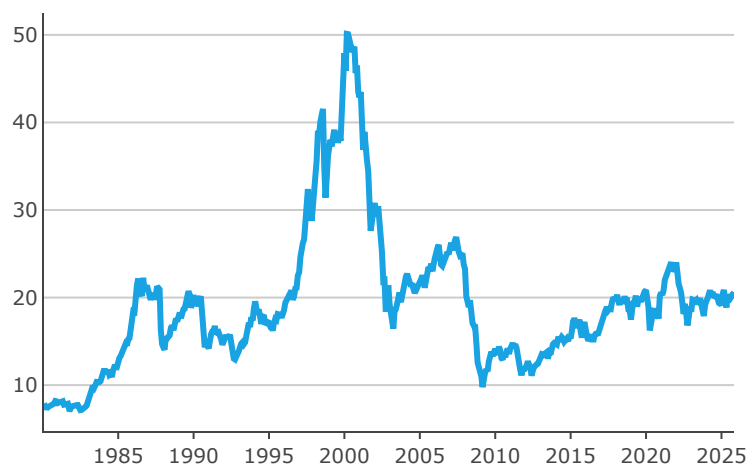
Granted, political progress can be slow, but the '25 Budget has delivered a fiscal boost raising the deficit from 1.1% to 3.3% of GDP. Additionally, looser rates, rising credit, and rising M1 supply suggest more liquidity entering the system - supportive for future consumption. This underpins expectations for a rebound of EPS growth to ~14% in '26. **So while '25's ~13% YTD return was primarily multiple-driven, '26 may deliver the same via earnings growth alone - before any re-rating. Still, optimism often fades as earnings season nears, raising the risk of downgrades.**

Europe

UK | Shiller P/E

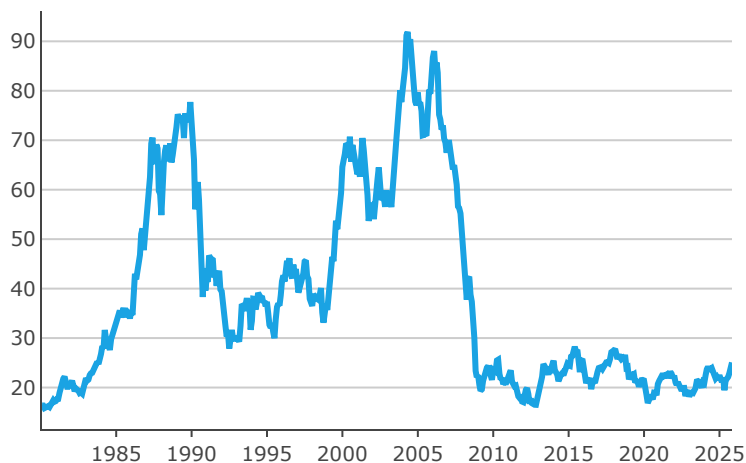


Europe (Ex-UK) | Shiller P/E

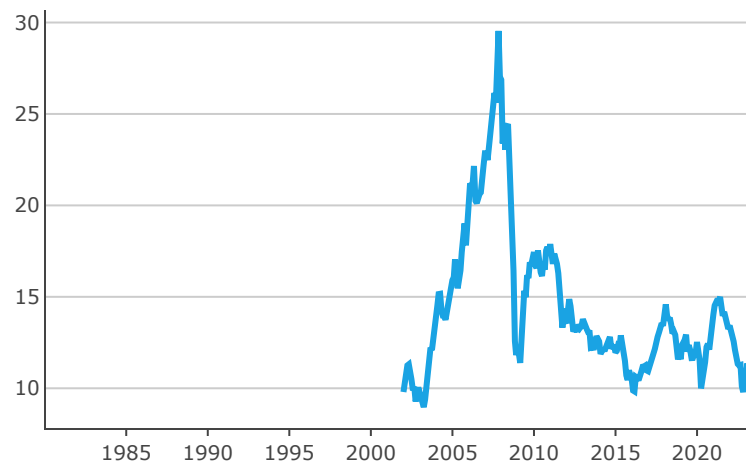


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of Oct 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. 1: Earnings per share. 2; JP Morgan 'Equity Strategy' 14 Oct 2025.

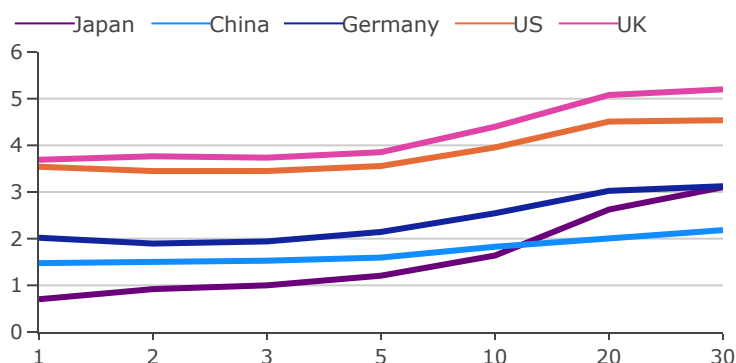
Bonds - Sovereigns

Japan's new Prime Minister, Sanae Takaichi, took office on 21 Oct 2025, signaling a decisive shift toward pro-growth, expansionary policies. Her agenda includes higher fiscal spending, tax cuts, and a continuation of loose monetary policy. She is open to issuing more bonds with spending prioritised on defence (above 2% of GDP) and strategic sectors such as AI, quantum computing, and nuclear energy. Proposed tax reforms include refundable credits and the abolition of gasoline taxes. Takaichi has also opposed rate hikes, emphasising coordination with the BoJ.

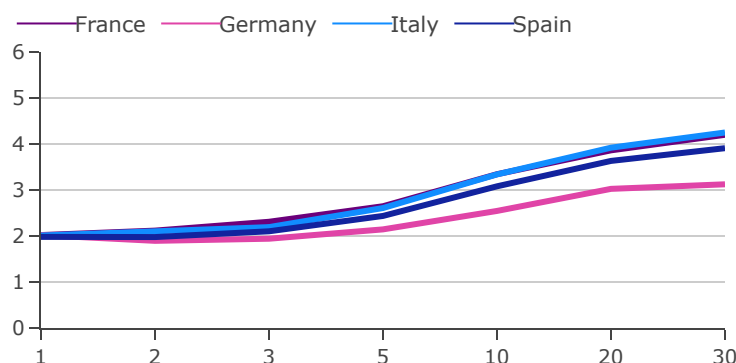
Markets reacted swiftly - the yield curve steepened as long yields rose above 3%, and the yen fell over 3% on a TW basis from peak to trough in October¹. Equities, naturally, outperformed - Nikkei hit record highs.

Global Government Yields

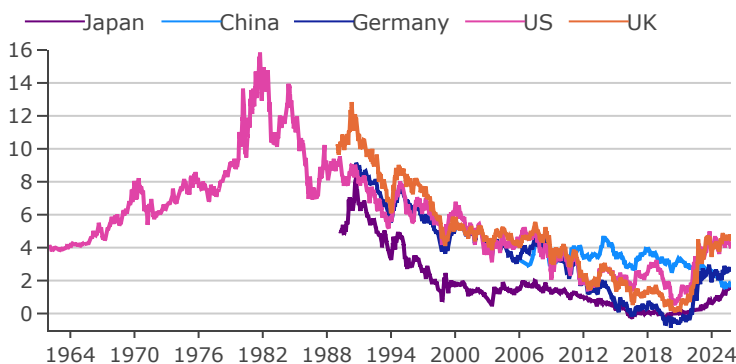
Global Treasury Yield Curves (Term vs %)



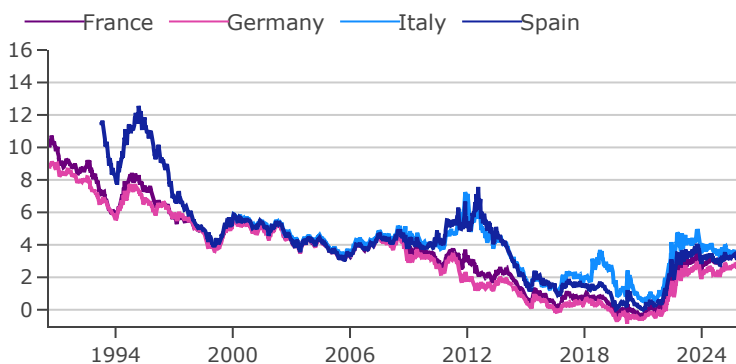
European Treasury Yield Curves (Term vs %)



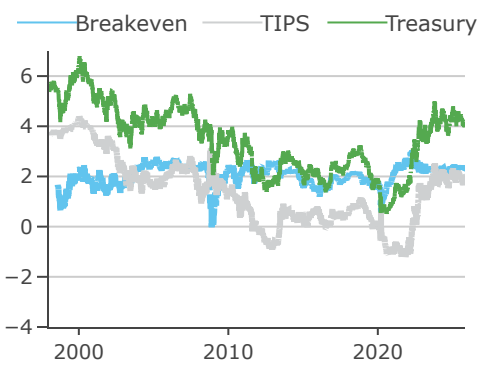
Global 10Y Yields %



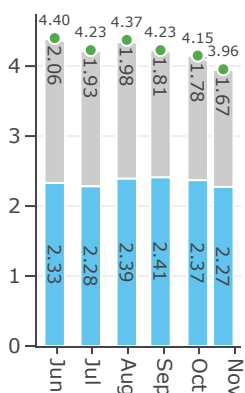
European 10Y Yields %



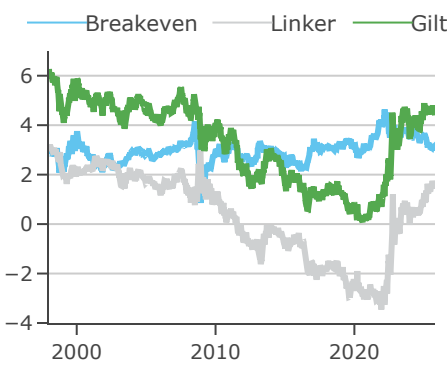
US 10Y Yields Breakdown %



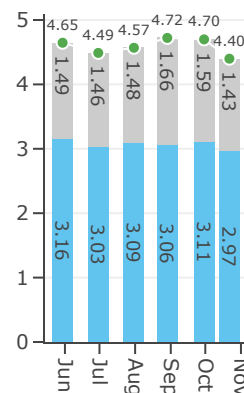
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



Sources | CCLA, Bloomberg as at Oct 2025. BoJ: Bank of Japan. 1: to date 22 October 2025.

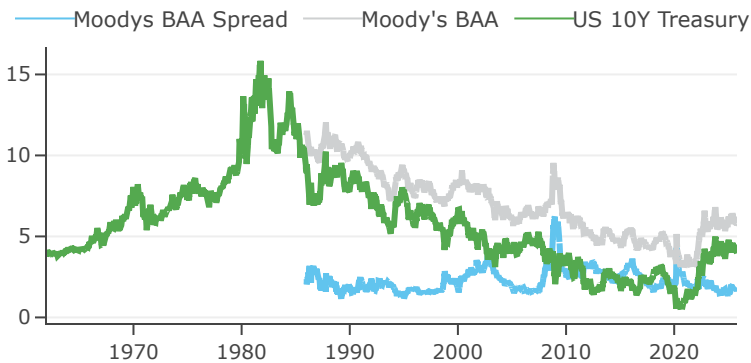
Bonds - Credit

The second week of October saw a sharp widening across US credit. BBs widened 29bps - a 3.5σ move - marking their biggest two-day underperformance and widest gap versus BBBs since 2022. Energy, Basic Materials, and Finance sectors saw similar moves, while BDCs widened up to 32bps.

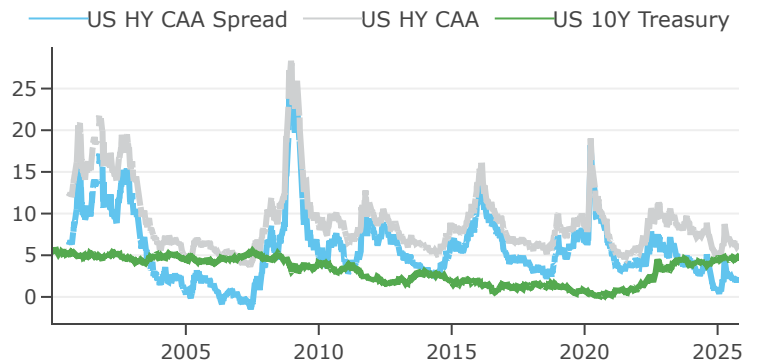
The sell-off was driven by three factors: (1) renewed US-China trade tensions (see p20) pressuring Energy and Basic Materials; (2) defaults by Tricolor and First Brands, sparking repricing in BBs and IG BDCs; and (3) contagion fears from private-credit stress impacting IG Financials. **Yet IG tailwinds remain intact - low recession risk, a dovish Fed, and solid balance sheets - likely making this a healthy correction, not the start of a capitulation.**

Global Credit Yields

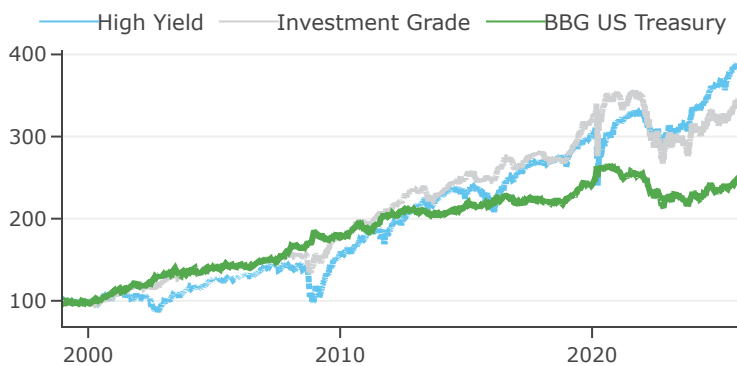
US Corporate Investment Grade Yield %



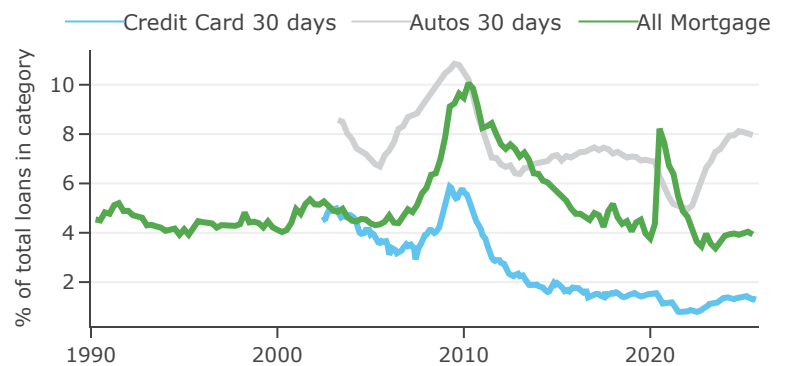
US Corporate Sub-Investment Grade Yield %



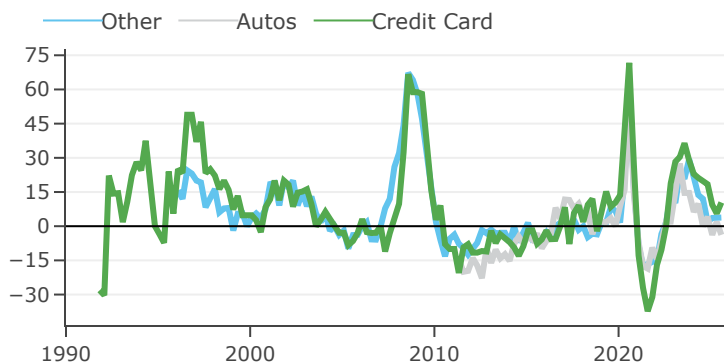
US Tr. vs IBoxx IG and HY Total Return \$ (100= 31 Dec '98)



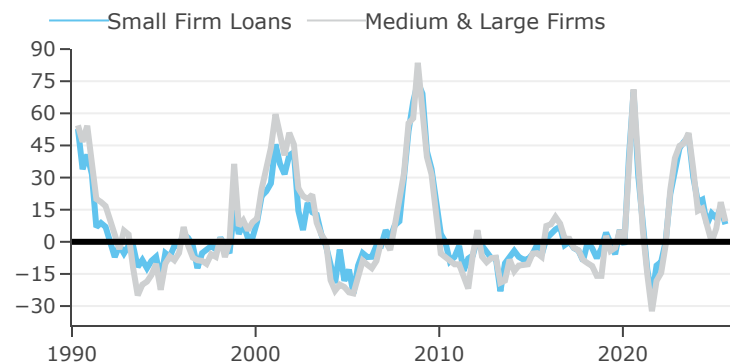
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Alternatives

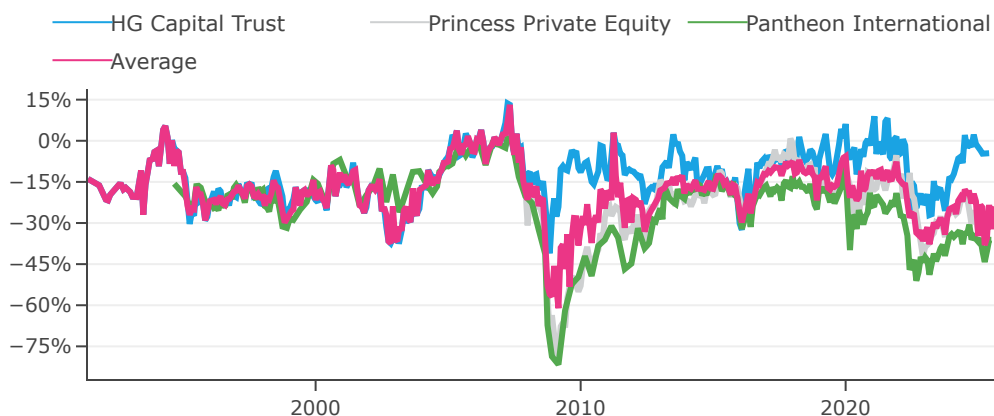
In recent publications we have highlighted headwinds with the broader private equity (PE) markets - including record dry powder, muted exits, and an overhang of continuation funds. The small and mid-cap segment, however, is proving more resilient.

For one, exit flexibility is greater: rather than relying primarily on IPOs, managers can achieve distributions through sales to strategic buyers, other PE firms, continuation vehicles, or increasingly, consolidated platforms. Entry valuations are also more appealing, with s-mid deals trading at lower EV/EBITDA multiples (12.7x vs 14.5x large cap)¹. Finally, leverage remains moderate LTM net debt/EBITDA at roughly 4x vs. 5.5x for the large-cap market¹, making mid-market exposures more attractive in a higher-rate environment.

Global Valuations

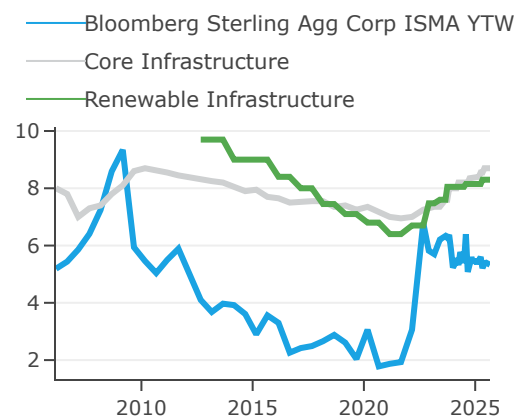
Listed Private Equity

Discount To NAVs



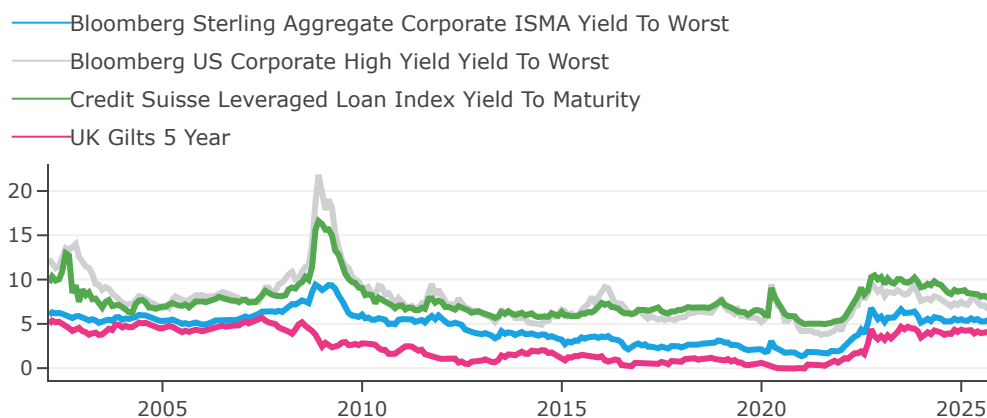
Infrastructure

Infra. Discount Rates vs Bond Yields



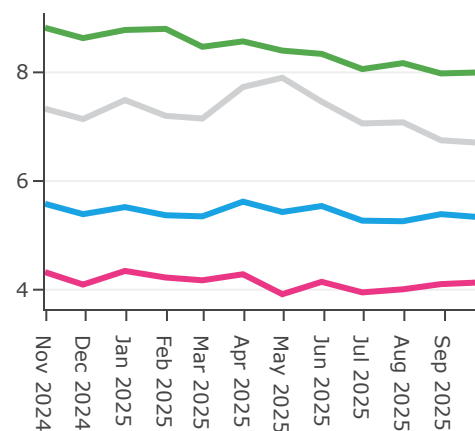
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Infrastructure: CCLA, Bloomberg; Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook; Contractual Income: Bloomberg, Pitchbook. Data as of Sep 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of Aug 2025 (latest data available). 1: JP Morgan: 'Guide to Alternatives Q3 2025' Oct 2025. Small-cap: <\$100m Mid-cap: \$100m-\$1bn. Large-cap: \$1bn+

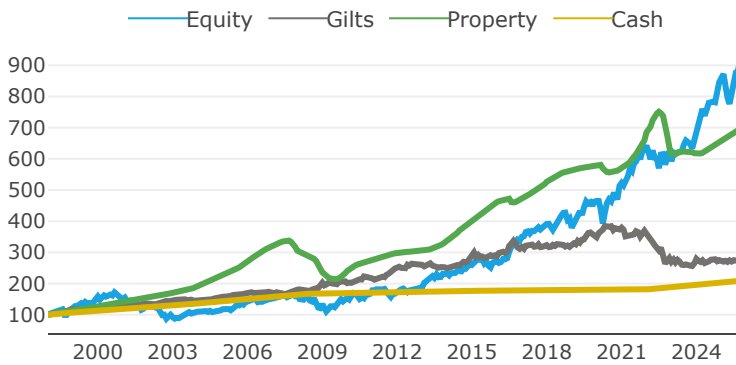
Property

UK property returns have transitioned this year, with initial gains driven by rental growth and dragged by capital depreciation; the latter has now stabilised. Transaction activity has normalised, and capital values appear to have bottomed out; total returns are now showing early signs of recovery.

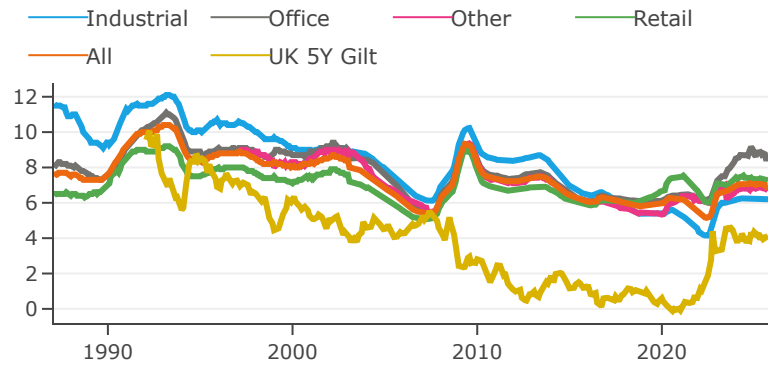
The sector is benefitting from an improving credit environment, courtesy of easier commercial lending standards and anticipation of further rate cuts. **Given an equivalent yield around 7%¹, the asset class remains compelling to us.**

UK Commercial Property Market

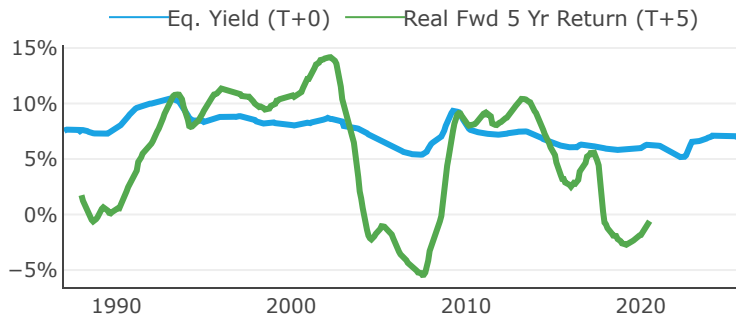
25 Years Of Return 1998=100



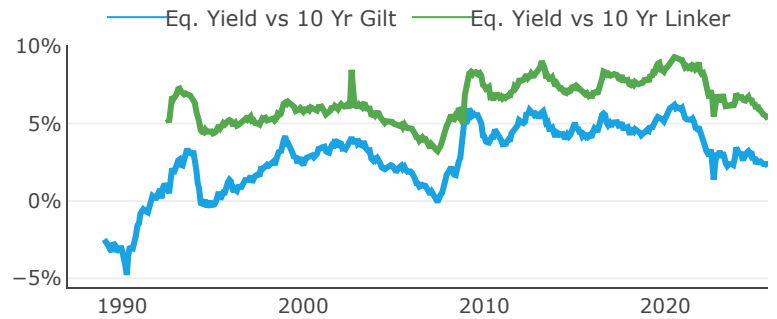
Equivalent Yields vs Gilt Yields %



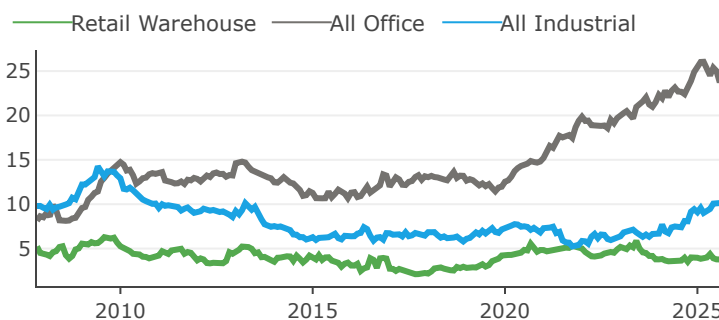
MSCI UK All Property Monthly TR Index %



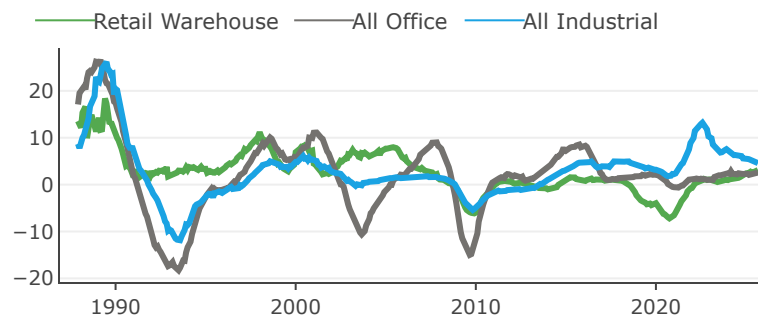
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at Sep 2025. 25 Years of Return, All Property Monthly TR Index as at Sep 2025. 1:MSCI UK Property Sept 2025.

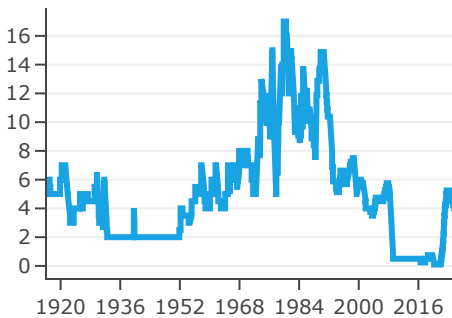
Cash

Facing a projected £20-30bn fiscal gap, the government may be forced to turn to its “forbidden four” taxes: VAT, income tax, NICs and corporation tax - which together generate ~ 70% of receipts. A modest 1% rise in VAT, income tax and NICs could yield £9.9bn, £8.5bn and £5.6bn respectively in tax receipts. Combined with a freeze on income and NIC thresholds worth another £5.6bn, the Chancellor could raise roughly £34bn by 2029–30, enough to plug the gap.¹ Then comes the challenge of actually creating “headroom”.

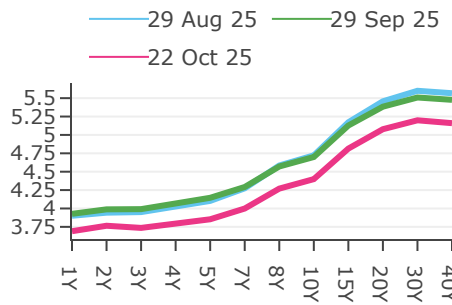
Yet this would weigh on near-term growth, and with the OBR projecting weaker long-term productivity, the government’s fiscal headroom increasingly depends on long-term supply-side reforms delivering as planned.

UK Sterling Market

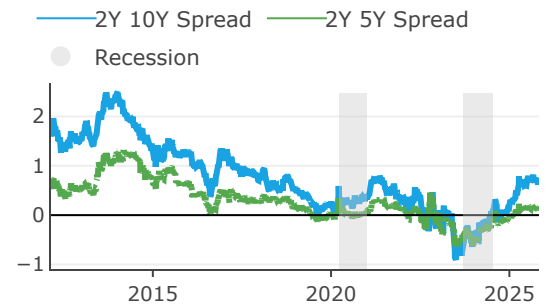
Official Bank Rate



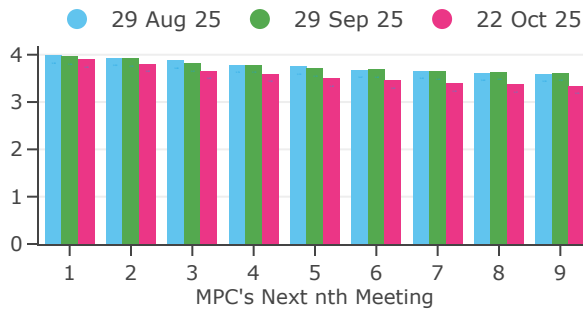
UK Gilt Curve



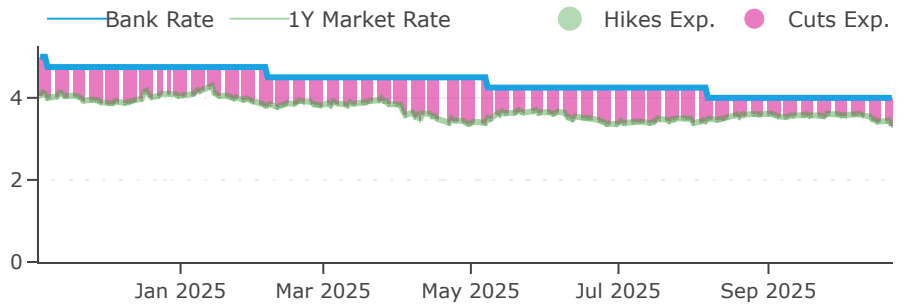
Gilt Spreads



Rate Expectations For Future MPC Meetings



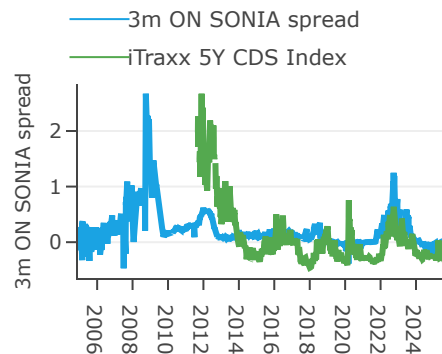
1Y Forward Market Rate Expectations



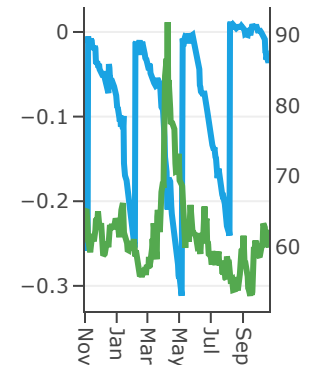
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025				
	May	June	July	August	Sep...
RPI	4.30	4.40	4.80	4.60	4.50
CPI	3.40	3.60	3.80	3.80	3.80
CPI Core	3.50	3.70	3.80	3.60	3.50
CPI Services	4.70	4.70	5.00	4.70	4.70
CPI Goods	2.00	2.40	2.70	2.80	2.90
Priv. Wages	4.90	4.50	4.50	4.20	

Market Stress



Last 12 Months



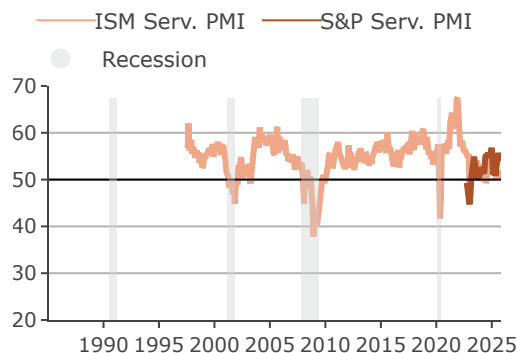
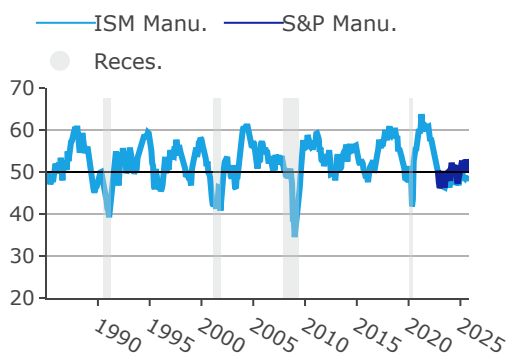
Sources | iTraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of Oct 2025. 1: Figures taken from IFS: IFS Green Budget 2025, 13 Oct 2025.

Global PMIs

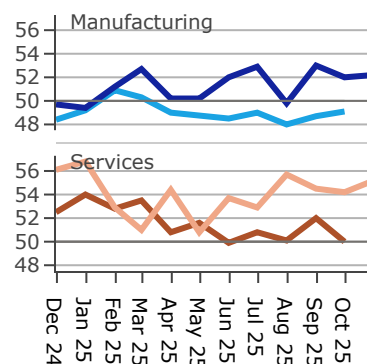
US Composite flash PMI continues to grow, now at 54.8, signaling strong expansion. Services led growth, with robust domestic demand. Manufacturing export activity rose for 5th straight month. Tariffs kept input costs high in both industries with difficulty in pass-through. This is slowing price inflation but causing margin pressures. Notably, margin pressure is not of concern on aggregate with the S&P 500.

UK Composite flash PMI rose to 51.1, 6th straight month >50. Manufacturing output spiked to its first growth reading, 51.2, on the back of JLR reopening. Yet, the overall index remains in contraction. Services saw growth in consumer-driven sector orders - a positive nod for GDP consumption. Employment remains weak in both sectors.

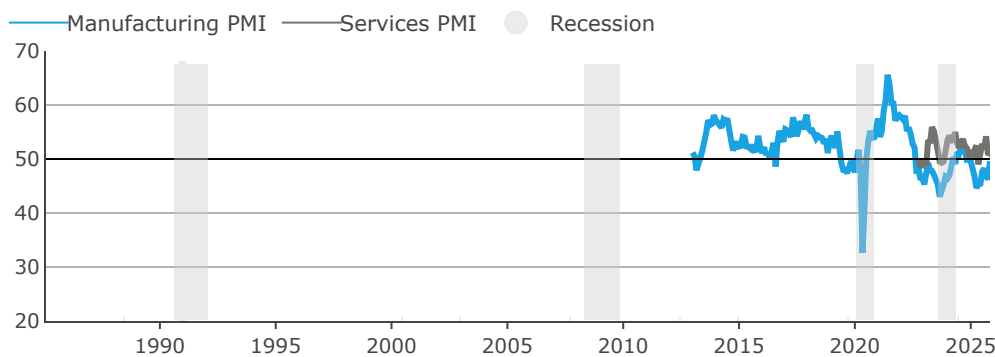
United States



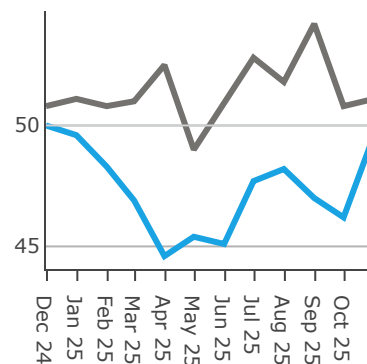
Last 12 Months



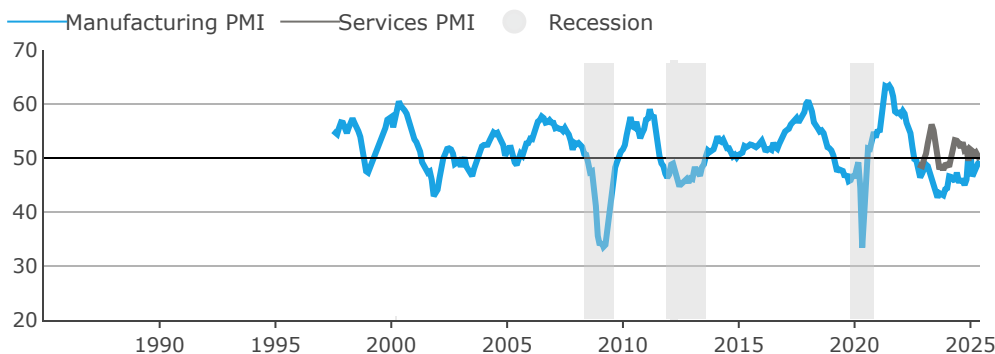
United Kingdom



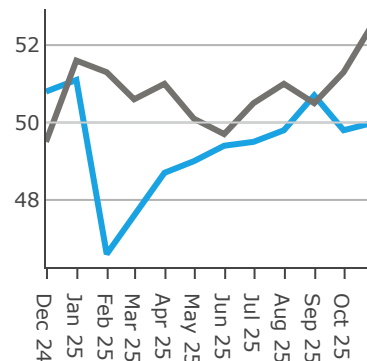
Last 12 Months



Eurozone



Last 12 Months

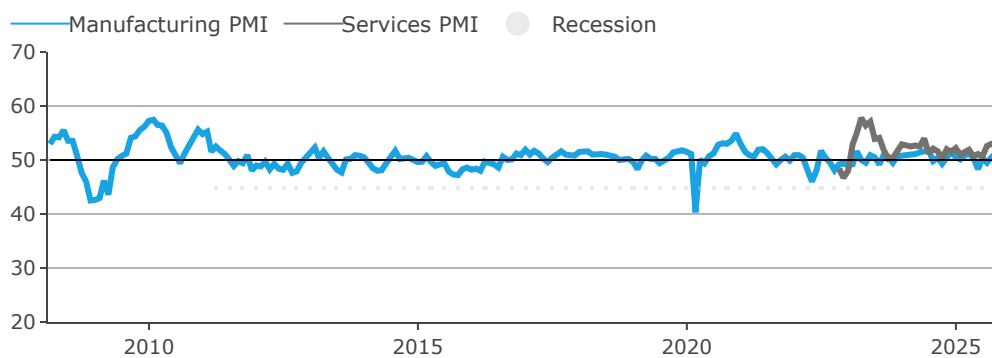


Global PMIs

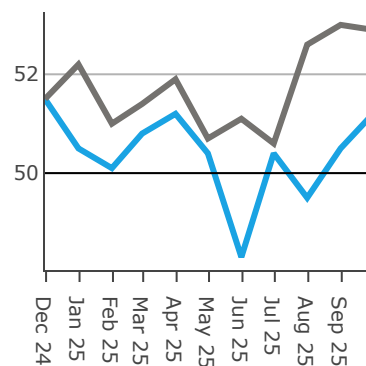
China's 15th Five-Year Plan sets out three core themes: industrial modernisation, tech self-reliance, and domestic demand expansion. Advanced manufacturing will remain the anchor to growth. Beijing aims to reduce reliance on foreign tech, especially in semiconductors and AI. Social welfare and consumption are secondary but supported seriously - for the first time a numerical target is to be given for the share of consumption/GDP.

The plan was approved at the October 2025 plenum. Specific growth targets and sector allocations will be announced at the March 2026 parliamentary session.

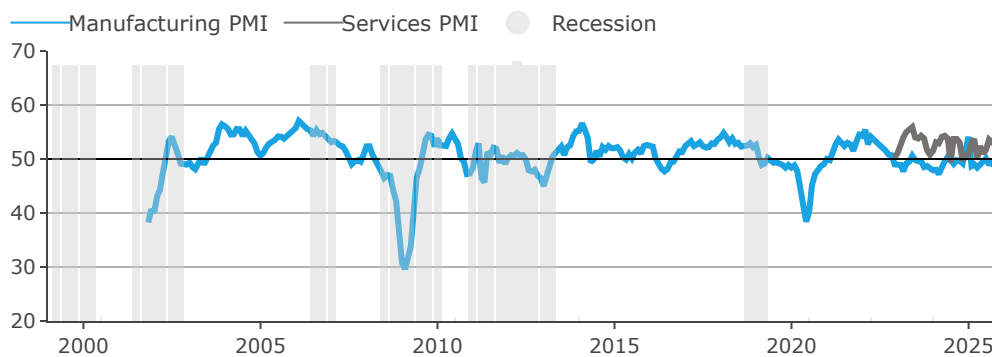
China



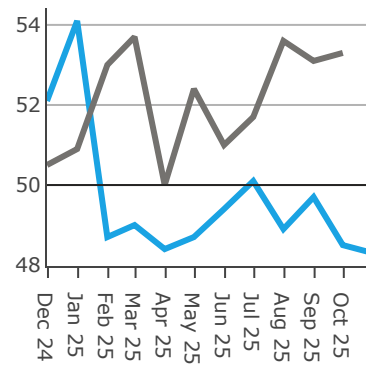
Last 12 Months



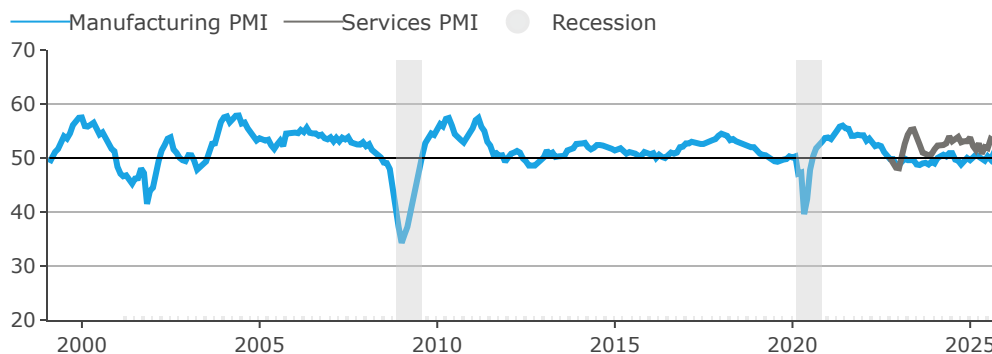
Japan



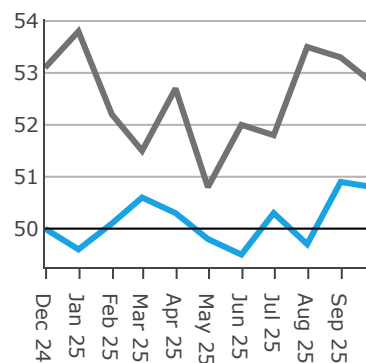
Last 12 Months



Global



Last 12 Months



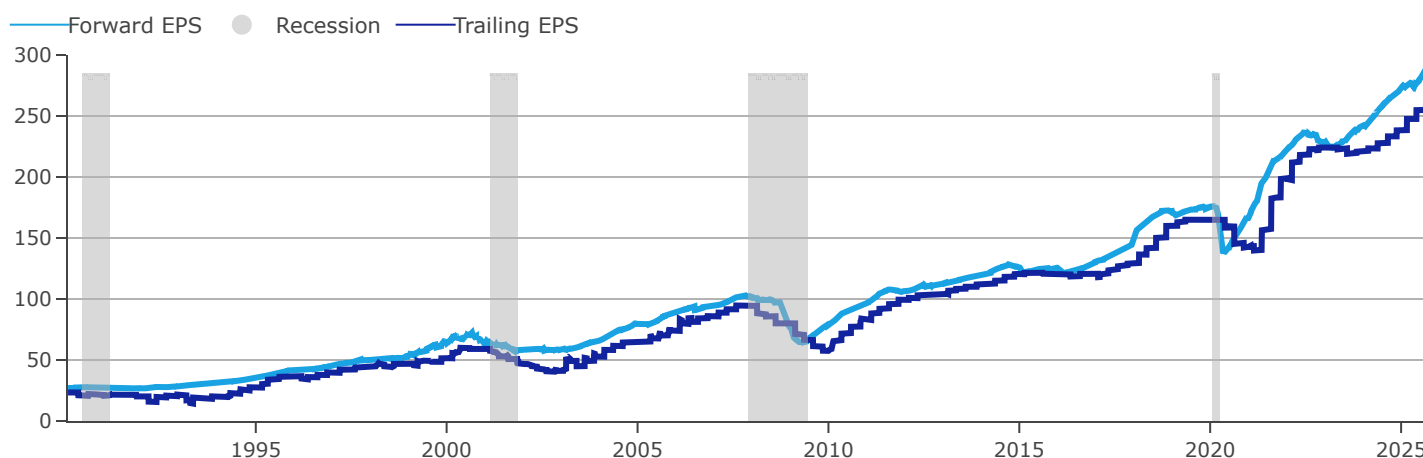
Earnings | USA

US corporate sentiment for Q3 remains upbeat: EPS estimates rising by 0.1% from 30 June to 30 September, defying the usual seasonal downgrades (five-year average: -1.4%; ten-year: -3.2%¹). Looking ahead, 2025 EPS growth is forecast at ~11%, in line with the long-term average of ~10%. Revenue growth stands at ~7%, signaling ongoing margin expansion.

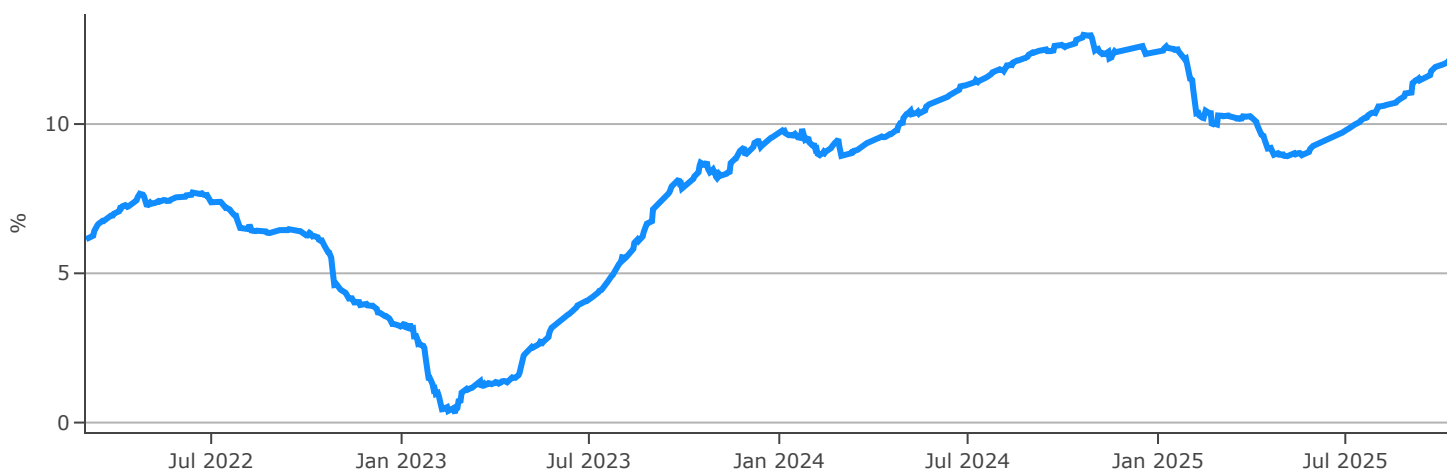
In contrast, the EU outlook is weaker: 2025 EPS growth is set to fall to -2.4%, with revenues largely stagnant, suggesting cost pressures continue to weigh on the market. Q3 EPS growth has marginally outperformed consensus: +2.7% vs +0.9%²; but revisions remain significantly behind the US (+4% vs +22% for NTM³).

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



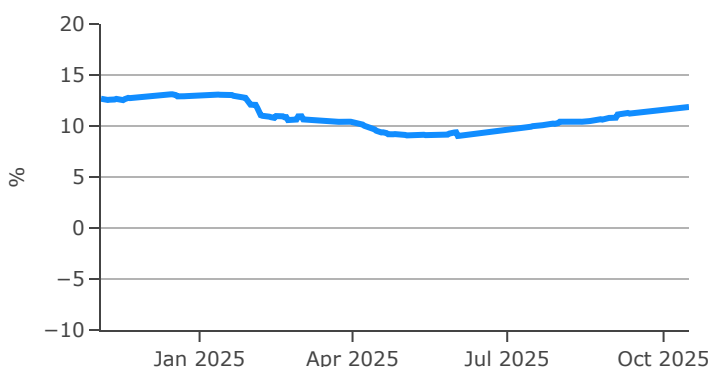
Earnings | Regional

Developed markets have seen a slow down in their forecasted blended 12M forward EPS growth rates. USA is now ~11%, falling from the January peak. Europe (ex UK) and UK are following a similar pattern, however, now surpassing their previous peaks.

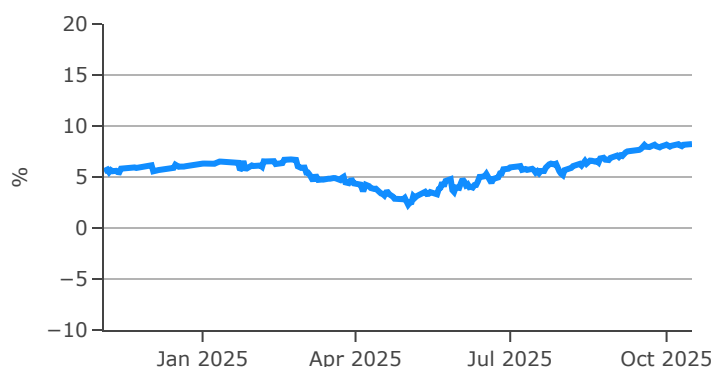
Emerging Markets are showing signs of improving with an EPS growth rate close to 15% - higher than any other region.

Regional Rolling 12M Blended Forward Earnings Growth

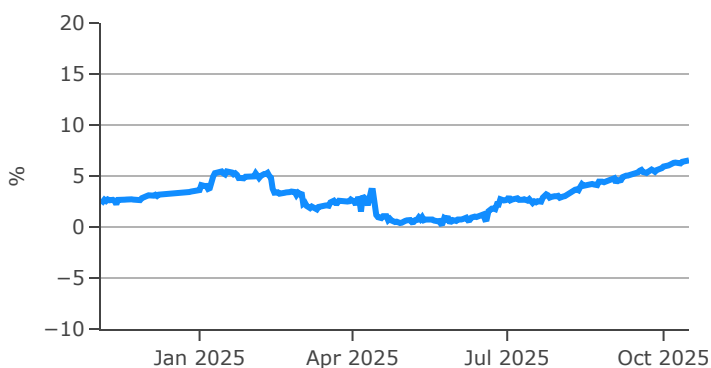
MSCI USA



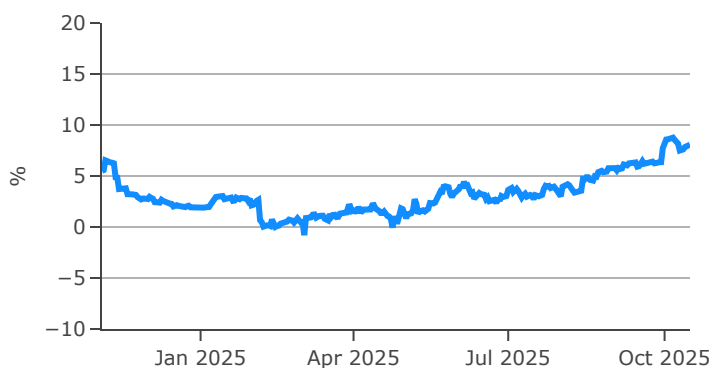
MSCI EU ex UK



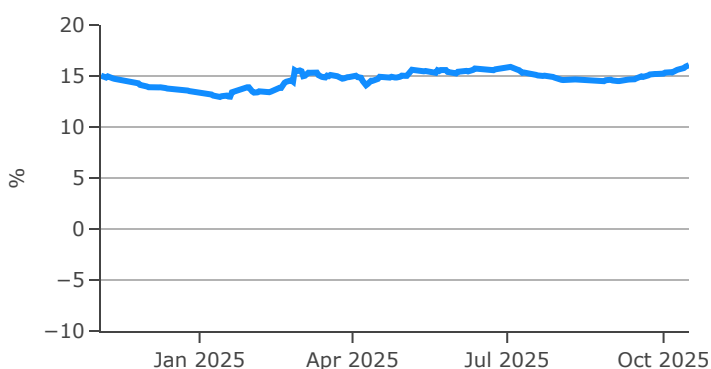
MSCI United Kingdom



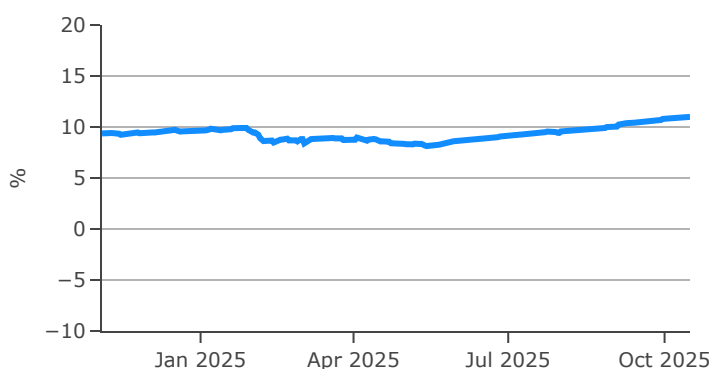
MSCI Japan



MSCI Emerging Markets



MSCI World



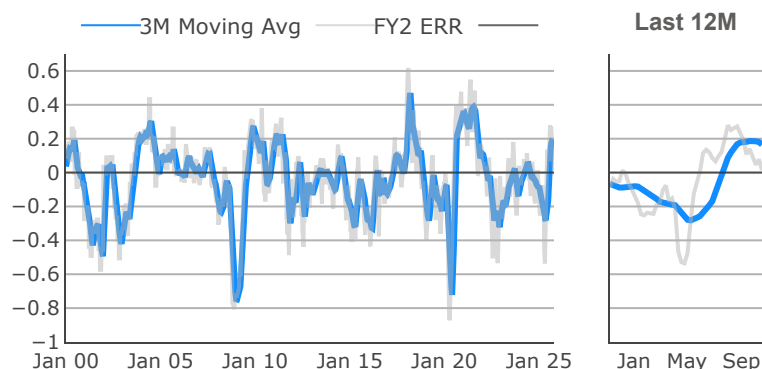
Earnings Revisions

GROWTH

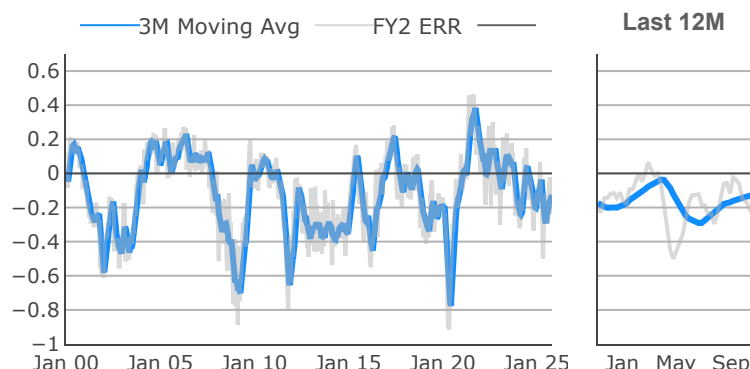
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global Earnings Revisions Ratios

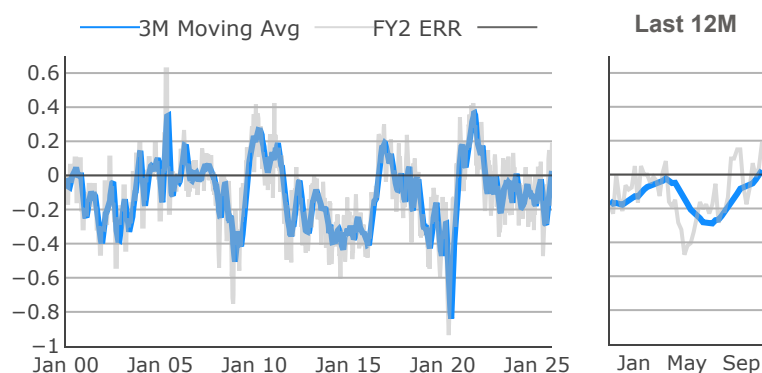
USA



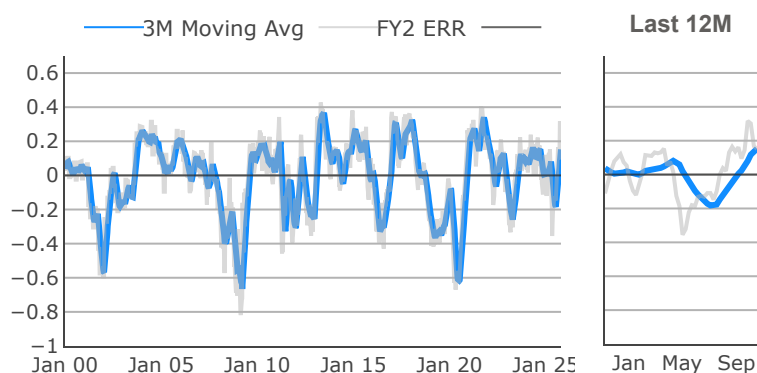
Eurozone



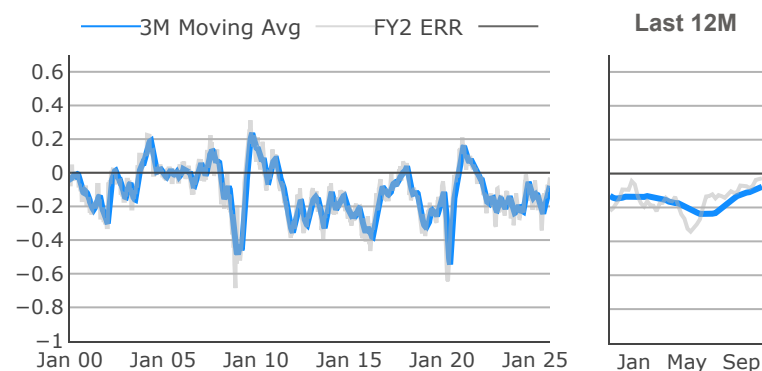
UK



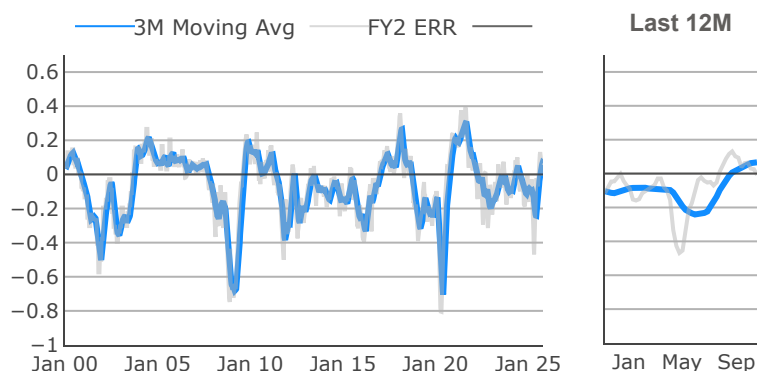
Japan



Emerging Markets



World

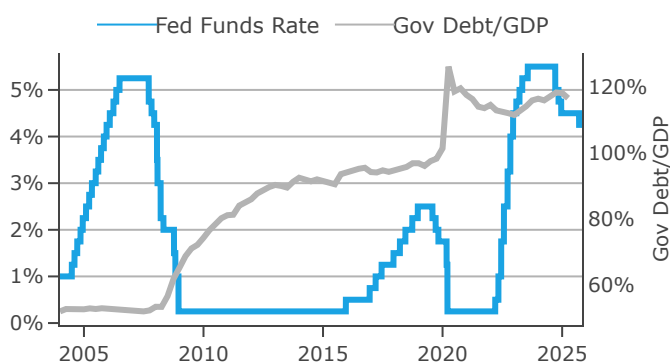


Interest Rates

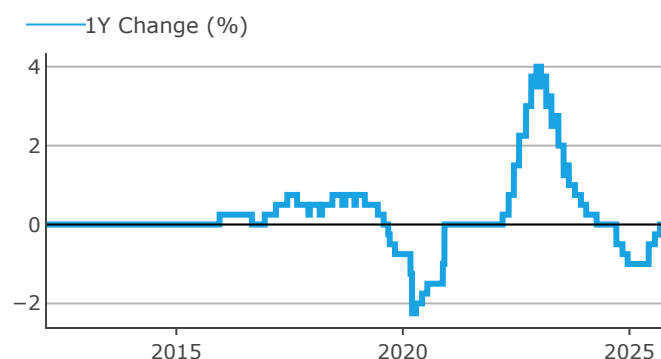
China has introduced a new licensing regime for foreign firms using any products with Chinese rare earth minerals or technology, which is set to severely disrupt global supply chains. This move will heighten the world's reliance on China for critical sectors such as defence, technology, and automotive manufacturing.

The response has been three-pronged: **first**, the US announced a 100% tariff on all Chinese imports from 1 Nov. '25; **second**, it is shifting industrial policy towards direct state investment and intervention in seven strategic industries; **third**, continued strategic-signalling to large US firms to invest billions into these industries. **Should these tariffs come to pass, the effective US tariff rate may reach ~25%, further intensifying inflation. More likely, however, trade tensions will ease following the Trump-Xi meeting on 30 Oct.**

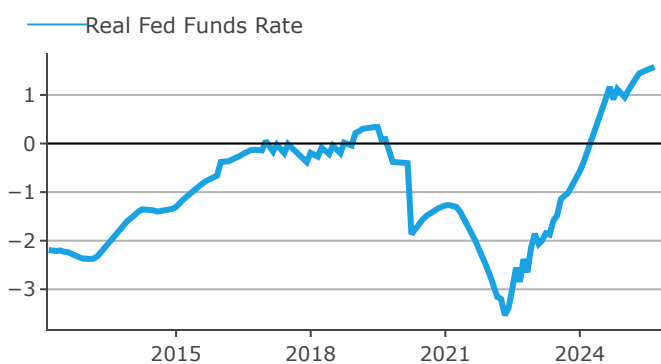
Fed Funds Rate



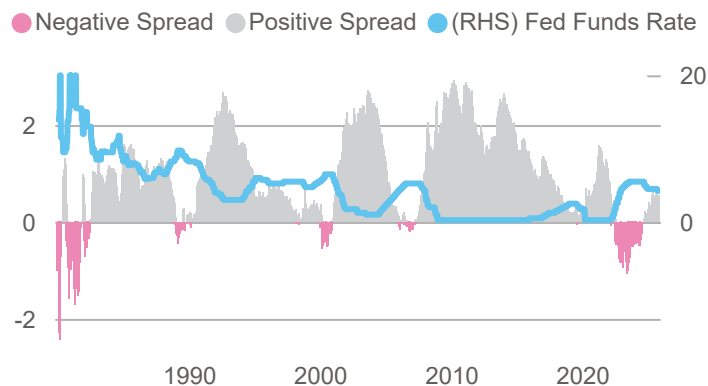
Change in Fed Funds Rate



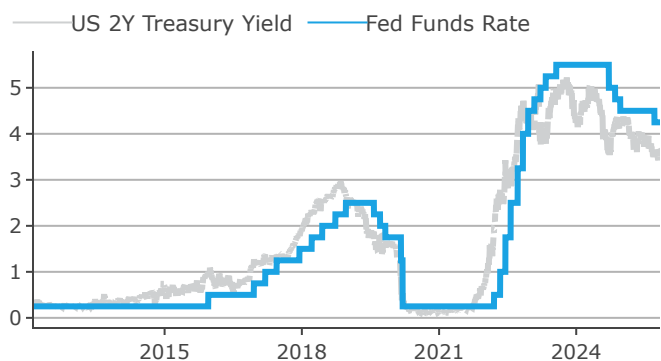
Real Fed Funds Rate (Using 2Y MA CPI)



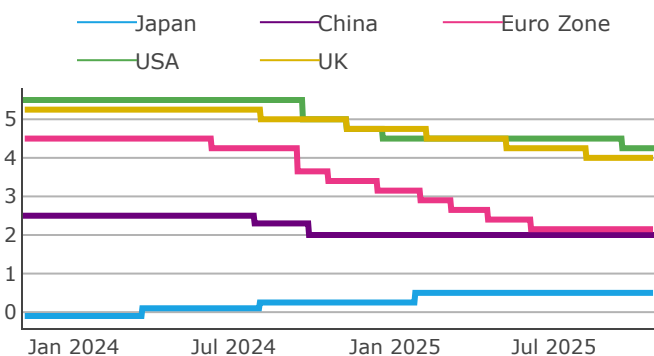
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



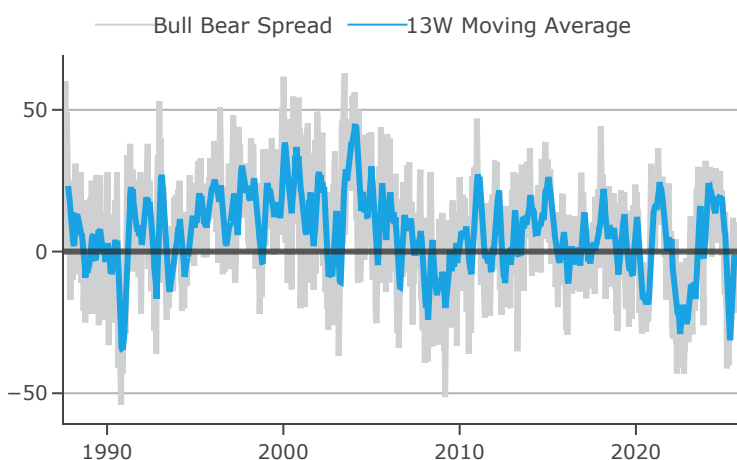
Sources | Bloomberg for all charts, as of Oct 2025.

Sentiment

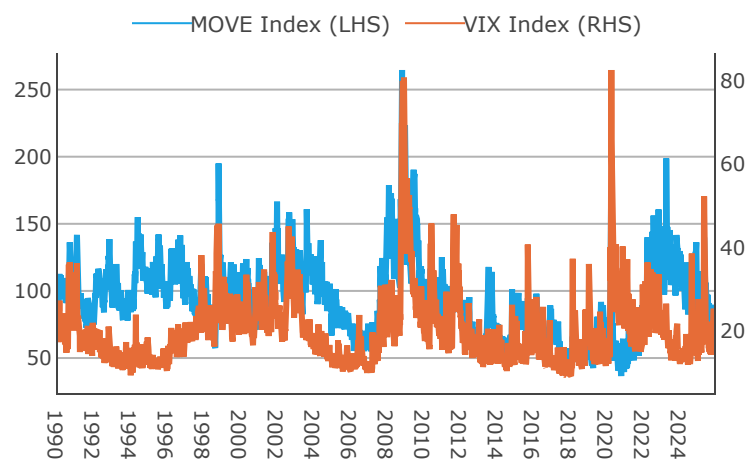
The **BAML Hartnett Bull & Bear Indicator** has remained at **6.2**. The value can be attributed to high equity market breadth with strong inflows, and continued strong technicals in credit. On the other hand, hedge fund positioning remain subdued.

US Equity Indicators

AAll Bull Bear Spread



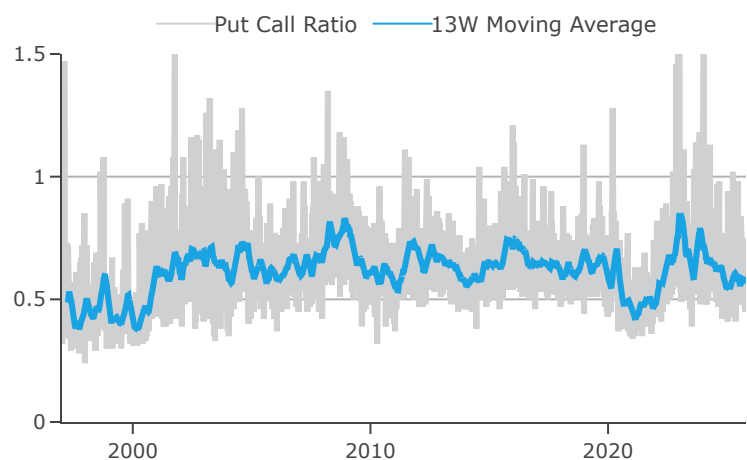
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio

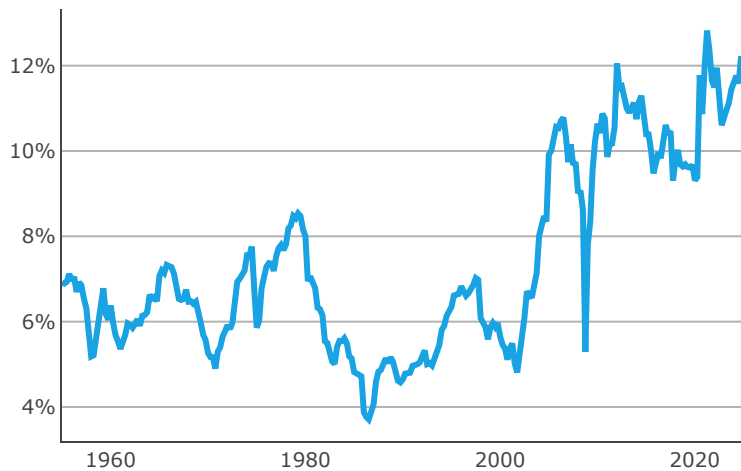


The Big Picture

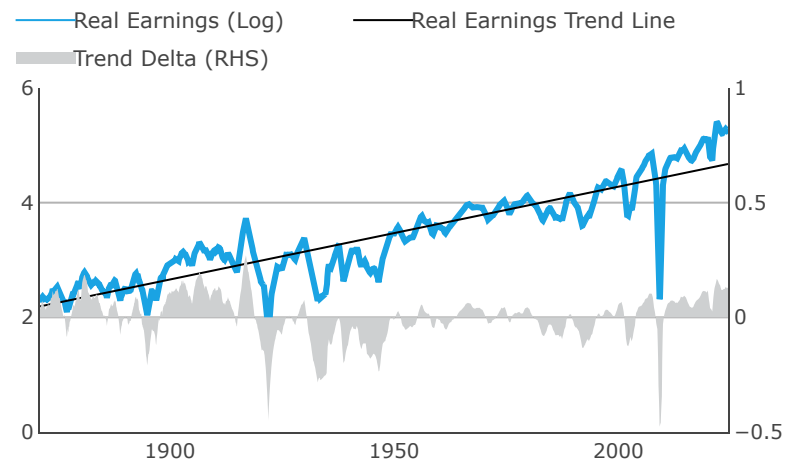
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, forward 10 year returns could be much lower than suggested by the ERPs.

Long Term Imbalances

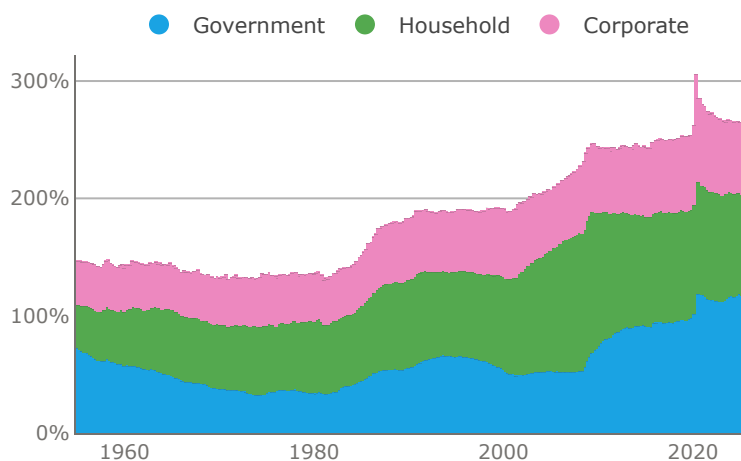
Profit Share of GDP



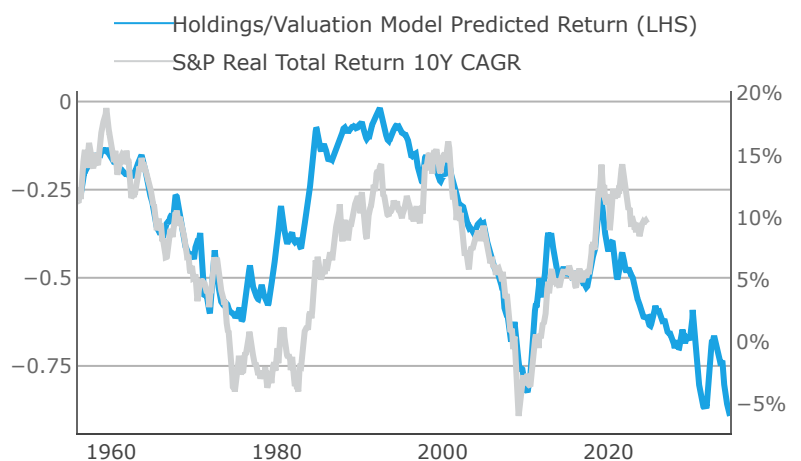
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



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